

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Davison Local Development Finance Authority	County Genesee
Audit Date June 30, 2004	Opinion Date July 12, 2004	Date Accountant Report Submitted to State:		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

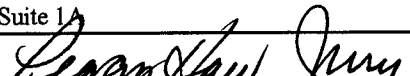
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 E. Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature  Peggy Haw Jury, CPA			

Annual Financial Report

**Davison Local Development Finance Authority
Davison, Michigan**

Fiscal Year Ended June 30, 2004

with Independent Auditors' Report

**Davison Local Development Finance Authority
Davison, Michigan
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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Introductory Section

**Davison Local Development Finance Authority
Davison, Michigan
List of Appointed Officials
June 30, 2004**

David Fulcher
Leroy Cole
John A. Emmendorfer
Fred Rappuhn
Rose Bogardus
Doug Ferrell
Rich Glish
Kelli Sproule

Chairman
Vice Chairman
Treasurer
Secretary

The Brownfield Re-development Authority is made up of the above board members holding the same positions.

Independent Auditors' Report

Board of Directors
Davison Local Development Finance Authority
Davison, Michigan

We have audited the financial statements of the governmental activities of Davison Local Development Finance Authority as of June 30, 2004, and for the year then ended, which collectively comprise the Davison Local Development Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Davison Local Development Finance Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IB, Davison Local Development Finance Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities of the Davison Local Development Finance Authority at June 30, 2004, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on page 3 and the information in the required supplementary information section on page 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Davison Local Development Finance Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Certified Public Accountants
Flint, Michigan

July 12, 2004

Management's Discussion and Analysis

Davison Local Development Finance Authority
Management's Discussion and Analysis
June 30, 2004

As management of Davison Local Development Finance Authority (LDFA), we offer readers of Davison Local Development Finance Authority's financial statements this narrative overview and analysis of the financial activities of the Davison Local Development Finance Authority.

The basic financial statements for the Davison Local Development Finance Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances-statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund financial statements.

First Year – Governmental Accounting Standards Board Statement No. 34

The LDFA is implementing the new Governmental Accounting Standards Board Statement No. 34 reporting requirements this year. Known as GASB 34, the new reporting requirements include this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the LDFA is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board (GASB) has recognized this problem, and does not require the LDFA to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. The LDFA will present a comparative analysis of government-wide data in future years when prior-year information is available.

Financial Highlights

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of Authority are \$132,123 of which \$127,123 represents cash and cash equivalent. The liabilities are \$4,203, which represents amounts due to the City of Davison, leaving current net assets of \$127,920.

Net assets increased \$25,474 for the Authority as a result of \$18,570 in program expenses which are offset by general revenues of \$44,044.

Basic Financial Statements

Davison Local Development Finance Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
Special Revenue Fund
June 30, 2004

	Special Revenue Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 127,123	\$ -	\$ 127,123
Deposit	5,000	-	5,000
Total assets	<u>\$ 132,123</u>	-	<u>132,123</u>
Liabilities			
Due to other governments	<u>\$ 4,203</u>	-	<u>4,203</u>
Fund Balances/Net Assets			
Fund balances:			
Designated for subsequent year expenditures	113,018	(113,018)	-
Unreserved	14,902	(14,902)	-
Total fund balances	<u>127,920</u>	<u>(127,920)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 132,123</u>	<u>(127,920)</u>	<u>4,203</u>
Net assets:			
Unrestricted		<u>\$ 127,920</u>	<u>\$ 127,920</u>

See notes to financial statements.

**Davison Local Development Finance Authority
Statement of Activities and
Governmental Fund Statement of Revenues, Expenditures, and Changes in
Fund Balance
Special Revenue Fund
Year Ended June 30, 2004**

	Special Revenue Fund	Adjustments	Statement of Activities
Program expenses:			
Development administration:			
Community development director	\$ 17,570	\$ -	\$ 17,570
Development activities:			
Professional services	1,000	-	1,000
Total program expenses	18,570	-	18,570
General revenues:			
Tax increment revenues	42,911	-	42,911
Interest earnings	1,133	-	1,133
Total general revenues	44,044	-	44,044
Increase in fund balance/net assets	25,474	-	25,474
Fund balance/net assets at beginning of year	102,446	-	102,446
Fund balance/net assets at end of year	\$ 127,920	\$ - 0 -	\$ 127,920

See notes to financial statements.

Notes to Basic Financial Statements

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies

The accounting policies of the Davison Local Development Finance Authority (LDFA) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison Local Development Finance Authority.

Reporting entity

In 1997, the City of Davison elected to take advantage of the full powers granted by Public Act 281 of 1986, as amended and create a local development finance authority to promote economic growth on properties located in the Industrial District.

The Davison Local Development Finance Authority (LDFA) is a component unit of the City of Davison and is located in Davison, Michigan. The purpose of the LDFA is to act as a local development finance authority in accordance with Act 281 of the Public Acts of Michigan of 1986, as amended and include, but not limited to, the creation and implementation of development plans in the industrial zones, to increase property values in the industrial zones, and to promote economic growth therein. The power or authority given under Public Act 281 is as follows:

- A. Study and analyze unemployment, underemployment, joblessness, and the impact of growth upon the authority district or districts.
- B. Plan and propose the construction, renovation, repair, remodeling, rehabilitation, restoration, preservation, or reconstruction of a public facility.
- C. Develop long-range plans, in cooperation with the agency which is chiefly responsible for planning in the municipality, to promote the growth of the authority district or districts, and take the steps that are necessary to implement the plans to the fullest extent possible to create jobs and promote economic growth.
- D. Implement any plan of development necessary to achieve the purposes of this act in accordance with the powers of the authority as granted by this act.
- E. Make and enter into contracts necessary or incidental to the exercise of the board's powers and the performance of its duties.
- F. Acquire by purchase or otherwise on terms and conditions and in a manner the authority considers proper, own or lease as lessor or lessee, convey, demolish, relocate, rehabilitate, or otherwise dispose of real or personal property, or rights or interests in the property, which the authority determines is reasonably necessary to achieve the purposes of this act, and to grant or acquire licenses, easements, and options with respect to the property.
- G. Improve land, prepare sites for buildings, including the demolition of existing structures, and construct, reconstruct, rehabilitate, restore and preserve, equip, improve, maintain, repair, or operate a building, and any necessary or desirable appurtenances to a building, as provided in section 12(2) for the use, in whole or in part, of a public or private person or corporation, or a combination thereof.
- H. Fix, charge, and collect fees, rents, and charges for the use of a building or property or a part of a building or property under the board's control, or a facility in the building or on the property, and pledge the fees, rents, and charges for the payment of revenue bonds issued by the LDFA.

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

Reporting entity – (continued)

- I. Lease a building or property or part of a building or property under the board's control.
- J. Accept grants and donations of property, labor, or other things of value from a public or private source.
- K. Acquire and construct public facilities.
- L. Incur costs in connection with the performance of the board's authorized functions including, but not limited to, administrative costs, and architects, engineers, legal, and accounting fees.
- M. Plan, propose, and implement an improvement to a public facility on eligible property to comply with the barrier free design requirements of the state construction code promulgated under the state construction code Act of 1972, Act No. 230 of Public Acts of 1972, being sections 125.1501 to 125.1531 of the Michigan Compiled laws.

The accounting policies of the LDFA conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

A. Principles used in determining the scope of the entity for financial reporting activities

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the LDFA. The LDFA is considered a "component unit" of the City of Davison's (City) governmental operation. As a result, industry standards require the City to include the financial activities of the LDFA in the City's Annual Financial Statements. The financial statement of the City of Davison is available for public inspection at city hall.

On April 20, 1998, the City Council of the City of Davison, Michigan adopted a resolution to create the City of Davison Brownfield Redevelopment Authority (BRA) and to designate the Brownfield Zone within which the BRA will exercise its powers. The Brownfield Zone to which this Brownfield Plan (the "Plan") applies, consists of the properties within the boundaries of the City of Davison, Michigan. The LDFA has agreed to supervise and control the Brownfield Redevelopment Authority (BRA).

The purpose of the Brownfield Plan, to be implemented by the BRA, is to satisfy the requirements for a Brownfield Plan as specified in Section 13 of Act No. 381 of the Public Acts of 1996. MCLA 125.2651 et. seq., which is known as the "Brownfield Redevelopment Financing Act".

The BRA has initially identified the following parcels of real estate which require, or which may require, undertaking certain eligible response activities to facilitate redevelopment under this Plan:

- 1. The Former Independent Oil Company Site, a "facility" located within the boundaries of the Downtown Development Authority, containing one or more underground storage tank(s) and contaminated soils and groundwater, requiring Phase II and baseline environment assessments, due care, and additional response activities prior to being redeveloped as part of the Downtown Revitalization Plan.

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

A. Principles used in determining the scope of the entity for financial reporting activities - (continued)

2. The Former Davison Oil & Gas Site, a “facility” located within the boundaries of the Downtown Development Authority, consists of two contiguous parcels and a portion of a City street that will be eventually closed as part of the redevelopment. The property contains one or more underground storage tank(s) and contaminated soils and groundwater, and it requires demolition of dilapidated building(s). Phase II and baseline environmental assessments, due care and additional response activities, and infrastructure improvements prior to being redeveloped as part of the Downtown Revitalization Plan.

The duration of the Brownfield Plan shall be thirty (30) years. As of June 30, 2004, there has been no activity for BRA.

B. Government-wide and fund financial statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the LDFA.

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

The LDFA reports the following governmental fund:

The Special Revenue Fund is the LDFA's primary operating fund. It accounts for all financial resources of the LDFA.

D. Assets, liabilities, and net assets or equity

1. Deposits

The LDFA's cash and cash equivalents include cash on hand and demand deposits.

2. Fund equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

3. Property tax

Property taxes are levied each July 1 on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the Local Development Finance Authority District including a Tax Increment Financing Area. On July 1, the property tax attachment is an enforceable lien on the property. Assessed values are established by the City Assessor at 50% of estimated market value. The LDFA's tax revenue within the Tax Increment Financing Area is the sum of all taxes levied on the increase in taxable value since designation as a Tax Increment Financing Area. Taxes are billed and collected by the City of Davison and are due by February 28 following the levy date. LDFA property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

4. Comparative data/reclassifications:

Comparative total data for the prior year have been presented at the fund financial statement level only in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. Stewardship, compliance, and accountability

Budgetary information

The LDFA follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the budget committee submits to the board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the Special Revenue Fund.

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

II. Stewardship, compliance, and accountability – (continued)

Budgetary information – (continued)

2. Prior to June 30, the budget is legally enacted on a functional basis for the Special Revenue Fund. The Davison City Council must also approve the budget.
3. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.
4. Budget appropriations lapse at year end.
5. The original budget was amended during the year. The budget to actual expenditures in the financial statements, represent the final budgeted expenditures.

III. Detailed notes on all funds

Deposits and investments

Deposits:

At year end, the carrying amount of the LDFA's deposits was \$127,123, and the bank balance was \$127,123. Of the total bank balance, \$100,000 was insured by Federal Depository Insurance and \$27,123 was uninsured.

Investments:

Effective November 19, 2001, the LDFA adopted an investment policy. Funds of the LDFA will be invested in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, and in accordance the following objectives, safety of capital, diversification, liquidity, and return of investment. In accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, the surplus of funds of the LDFA may be invested as follows:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, commercial paper, repurchase agreements, Bankers' acceptances of United States banks, mutual funds, investment pools organized under the surplus funds investment pool act, 1982 PA 367, and investment pools organized under the local government investment pool act, 1985 PA 121.

The LDFA is using the above as its investment policy and has authorized the following depositories: Bank One, Davison State Bank, and Citizens Bank. The LDFA held no investments at June 30, 2004.

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

IV. Other information

Revenues and expenditures:

Property taxes:

In 1997, the Davison Local Development Finance Authority entered into tax incremental financing agreements with the City of Davison, Genesee County, Genesee Intermediate Schools, and Davison Community Schools. The LDFA's tax incremental revenue is calculated by multiplying the millage (of all entities involved) times the Captured Taxable Value (the difference between current taxable value and the initial taxable value). The initial taxable values were established in 1997 (\$2,753,325).

During 1994, Proposal A was passed by Michigan taxpayers limiting the school millage rates. The law also eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in taxable value within the Tax Increment Financing Area that can be captured and passed through to the LDFA. There are three exceptions to this portion of the law under which the school millage could be continued as part of the captured assessment calculation: 1) the LDFA has a legal debt obligation; 2) the LDFA has an eligible advance payable; 3) or the LDFA has specific project commitments.

The captured taxable value in excess of the initial taxable values for June 30, 2004 is \$1,632,448.

The LDFA is using the tax increment revenues to improve the plan area and has created 21 jobs as a result of the implementation of the tax increment financing plan.

V. Commitments

On November 17, 2003, the LDFA entered into a purchase agreement for property located at 210 Rising Street. A deposit of \$5,000 was made for the total purchase price of \$110,000. The closing had not occurred by the date of the financial statements due to issues with the title to the property.

VI. LDFA proposed improvement projects

The location, extent, and character of the proposed improvements noted in the LDFA's plan are identified below. It is estimated that the projects will be completed by the year 2017.

Future minimum payments required under the plan to complete each project are as follows:

<u>Short-term projects (current – 2007)</u>	<u>Estimated Cost</u>
Signage – to better promote industrial properties, corporate identification and directional signage will be situated at appropriate locations on M-15 and on West Rising Street	\$ 25,000
Overhead street lighting	35,000
Sidewalks – to promote pedestrian safety, sidewalks may be developed throughout the Development District with high priority given to both Dayton Street and West Rising Street	*Variable

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

VI. LDFA proposed improvement projects – (continued)

<u>Long-term projects (2008 – 2017)</u>	<u>Estimated Cost</u>
Landscaping	*Variable
Speculative building program	250,000
Parking – improved parking to better serve industrial facilities is considered a long-term priority. Expansion of existing facilities will require special attention to increased parking needs. Possible new ingress and egress on permanent easement to allow public financial participation is a potential solution to the problem.	*Variable
<u>On-going projects (current – 2017)</u>	
Land acquisition	400,000
Infrastructure improvements – extending the water and sewer lines and East Rising Road as a way to attract new industrial investment to the possible expansion area.	240,000
Administration – these funds will be allocated to operating expenses such as: a full/part-time administrator, supplies, materials, postage, newspaper publications, etc.	50,000
Professional services – these services will include, but not be limited to; legal, financial/auditing, marketing, advertising, grant assistance, planning, and design related services.	90,000
Contingencies – set at approximately 10 percent of total anticipated expenditures to cover project cost overruns and other unforeseen expenses.	<u>121,000</u>
Total	<u>\$1,211,000</u>

VII. Description of Brownfield costs to be paid for with tax increment revenues and summary of eligible activities

Brownfield costs to be paid by the LDFA with tax increment revenues include, but are not limited to, the following:

- Phase I and II environment assessments
- Baseline environmental assessments
- Soil and groundwater investigations
- Underground storage tank removals
- Soil and/or groundwater remediation
- Building demolitions
- Due care activities (required by MDEQ)
- Associated infrastructure repairs associated with response activities
- Administration costs (work plans, MDEQ approvals, Authority administrative/operating expenses)

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

VII. Description of Brownfield costs to be paid for with tax increment revenues and summary of eligible activities – (continued)

Costs for preliminary eligible activities that may be paid with tax increment revenues, associated with the projects approved by the LDFA and Davison City Council, are described below. Delineation of additional eligible activities to be conducted as part of a development agreement between the LDFA and the developer or owner of the eligible properties is deferred until certain baseline assessments and investigations are completed under this Plan.

Former Independent Oil Company Site

<u>Activity</u>	<u>Cost</u>
Groundwater investigation	\$ 19,000
Remedial action plan	3,000
Baseline environmental assessment	4,500
Soil contamination abatement ⁽¹⁾	25,000
UST removal	9,000
Groundwater contamination abatement ⁽²⁾	-
Infrastructure repairs	7,000
Administration	6,800
Interest ⁽³⁾	<u>56,551</u>
Total	<u>\$130,851</u>

(1) Cost based on engineering controls; may be revised based on MDEQ review of RAP.

(2) Extent of groundwater contamination unknown at this time; abatement costs will be determined following investigation.

(3) Interest calculated based on 6% for 21 years.

Former Davison Oil & Gas Site

<u>Activity</u>	<u>Cost</u>
Soil and groundwater investigation	\$ 55,000
Remedial action plan	5,500
Baseline environmental assessment	5,000
Soil contamination abatement ⁽¹⁾	60,000
Groundwater contamination abatement ⁽²⁾	-
Building demolition	25,000
UST removal	15,000
Infrastructure repairs	40,000
Administration	20,550
Interest ⁽³⁾	<u>353,768</u>
Total	<u>\$579,818</u>

(1) Extent of soil contamination uncertain at this time; cost estimate based on best case scenario.

(2) Presence and extent of groundwater contamination unknown at this time; abatement costs cannot be estimated at this time.

(3) Interest calculated based on annual payments through available tax increments captured.

Davison Local Development Finance Authority
Davison, Michigan
Notes to Basic Financial Statements
June 30, 2004

VIII. Contacting the LDFA's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the LDFA's finances and to demonstrate the LDFA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 East Flint Street, Davison, Michigan 48523.

Required Supplementary Information

**Davison Local Development Finance Authority
Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2004**

	Budget		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
Revenues:				
Tax increment revenues	\$ 52,692	\$ 52,692	\$ 42,911	\$ (9,781)
Interest	1,000	1,000	1,133	133
Total revenues	53,692	53,692	44,044	(9,648)
Expenditures:				
Current:				
Development administration:				
Community development director	17,570	17,570	17,570	-
Total development administration	17,570	17,570	17,570	-
Development activities:				
Professional services	16,000	16,000	1,000	15,000
Street lighting	10,000	10,000	-	10,000
Harvery drain	100,000	-	-	-
Land acquisition	10,000	110,000	-	110,000
Total development activities	136,000	136,000	1,000	135,000
Total expenditures	153,570	153,570	18,570	135,000
Excess (deficiency) of revenues over expenditures	(99,878)	(99,878)	25,474	125,352
Fund balance at beginning of year	102,446	102,446	102,446	-
Fund balance at end of year	\$ 2,568	\$ 2,568	\$ 127,920	\$ 125,352

See notes to financial statements.

July 12, 2004

Members of the Authority Board
Davison Local Development Finance Authority
Davison, Michigan

We have audited the financial statements of the Davison Local Development Finance Authority (the LDFA) for the year ended June 30, 2004, and have issued our report thereon dated July 12, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal controls of the LDFA. Such considerations were solely for the purpose of determining our procedures and are not to provide any assurance concerning such internal control.

Current Year Comments and Recommendation

The Authority should adopt an official capitalization policy for fixed assets as well as lives for fixed assets.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the LDFA are described in Note 1 to the general purpose financial statements. During the current year, GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, was implemented. We noted one transaction entered into by the LDFA during the year that was both significant and unusual; the LDFA entered into a purchase agreement for property located at 210 Rising Street. As of June 30, 2004, the sale had not been completed and the property title had not been transferred due to legal issues.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the LDFA that could potentially cause future financial statements to be materially misstated, even though we have concluded

that such adjustments are not material to the current financial statements. We only posted adjustments to record accounts payable due to the City of Davison.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

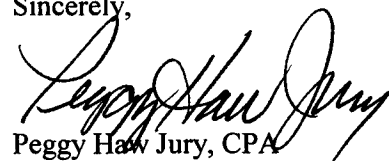
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the LDFA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would also like to express our appreciation for the cooperation extended to our staff by Colleen Hackney during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,



Peggy Haw Jury, CPA
Principal

Flint Office